

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Owendale	County Huron
Audit Date 2/29/05	Opinion Date 4/26/05	Date Accountant Report Submitted to Sate: 8/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 3023 Davenport	City Saginaw	State MI	ZIP 48603
Accountant Signature 			

Village of Owendale
Huron County, Michigan
Annual Financial Statements
and
Auditors' Report
February 28, 2005

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Local Street

Municipal Street

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Village of Owendale
List of Elected and Appointed Officials
February 28, 2005

Township Board

Walter Howard - President

Gerald Radabaugh - Trustee

Steve Story - Trustee

Martin Blondell - Trustee

Bryan Baker - Trustee

Denise Radabaugh - Trustee

Bonnie Gaeth - Trustee

Other Officers and Officials

Randy Howard - Clerk

Tina Smith - Treasurer



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Independent Auditors' Report

Members of the Village Council
Village of Owendale
Owendale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Owendale as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Owendale as of February 28, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of March 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated on our consideration of the Village of Owendale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Owendale's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

April 26, 2005
Village of Owendale, Michigan

Village of Owendale

Management's Discussion and Analysis

Introduction

Our discussion and analysis of Village of Owendale, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2005. It should be read in conjunction with the Village's financial statements, which begin on page 4-1.

This annual report consists of a series of financial statements. The Statement of Net Assets (on page 4-1) and the Statement of Activities (on page 4-2) provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements start on page 4-3. For governmental activities, these statements explain how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant funds. The remaining statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Certain comparative information, ordinarily required, is not available the first year that the financial statements are prepared according to GASB 34 guidelines. Subsequent reports will include a prior year comparison of results.

The Village as a Whole

The Village's combined net assets decreased 3% from a year ago – decreasing from \$1.7 million to \$ 1.6 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a modest increase of approximately \$3 thousand during the year. The business-type activities experienced a \$59 thousand decrease in net assets, primarily as a result of depreciation expense.

Village of Owendale Management's Discussion and Analysis

Following is a comparative analysis of the major components of the net assets (in thousands of dollars) of the Village as of February 28, 2005:

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 153	\$ 124	\$ 277
Capital assets	<u>64</u>	<u>1,422</u>	<u>1,486</u>
Total assets	<u>217</u>	<u>1,546</u>	<u>1,763</u>
Liabilities			
Current liabilities	5	2	7
Long-term liabilities	<u>-</u>	<u>136</u>	<u>136</u>
Total liabilities	<u>5</u>	<u>138</u>	<u>143</u>
Net assets			
Invested in capital assets -			
Net of related debt	64	1,284	1,348
Restricted	-	19	19
Unrestricted	<u>148</u>	<u>105</u>	<u>253</u>
Total net assets	<u>\$ 212</u>	<u>\$ 1,408</u>	<u>\$ 1,620</u>

Village of Owendale Management's Discussion and Analysis

The following table shows the changes of net assets (in thousands of dollars) as of the current date to the prior year.

	Governmental Activities	Business- type Activities	Total
	2005	2005	2005
Program revenues			
Charges for services	\$ 78	\$ 48	\$ 126
General revenues			
Property taxes	34	-	34
State shared revenue	44	-	44
Transfers and other revenue	17	-	17
Total revenues	173	48	221
Program expenses			
General government	94	-	94
Public safety	21	-	21
Public works	59	-	59
Recreation and culture	3	-	3
Water and sewer	-	101	101
Total expenses	177	101	278
Excess (deficiency) before transfers	(4)	(53)	(57)
Transfers	7	(7)	-
Change in net assets	3	(60)	(57)
Beginning net assets	209	1,467	1,676
Ending net assets	<u>\$ 212</u>	<u>\$ 1,407</u>	<u>\$ 1,619</u>

Village of Owendale

Management's Discussion and Analysis

The Village's Funds

Our analysis of the Village's major funds begins on page 4-3, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as roadwork, water and sewer. The Village's major funds for 2005-06 include the General, Major Street, Local Street, Municipal Street, Sewer and Water Funds.

General Fund Budgetary Highlights

Over the course of the year, the Village Board amended the budget to recognize a \$7,000 transfer to the General Fund from the Sewer Fund.

Capital Asset and Debt Administration

At the end of fiscal year 2004-05, the Village had \$1,486 thousand in a broad range of capital assets, including buildings, police equipment and water and sewer lines.

The Village has \$ 138 thousand remaining to be paid on water supply bonds.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2005-06 calls for a water rate increase of 50¢ per 1,000 gallons, sewer rate increase of \$2 per household every two months, extensive roadwork to be completed during 2005-06 and state revenue sharing is expected to continue to not keep up with inflation.

Contacting the Government

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Village Treasurer.

Village of Owendale
Statement of Net Assets
February 28, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 135,756	\$ 95,249	\$ 231,005
Receivables			
Customers	1,938	9,371	11,309
Due from other units of government	11,305	-	11,305
Due from other funds	121	(121)	-
Prepaid items	3,012	-	3,012
Restricted assets			
Cash and cash equivalents	-	18,556	18,556
Capital assets, net	<u>64,134</u>	<u>1,422,437</u>	<u>1,486,571</u>
Total assets	<u>216,266</u>	<u>1,545,492</u>	<u>1,761,758</u>
Liabilities			
Accounts payable	3,378	-	3,378
Accrued and other liabilities	1,011	-	1,011
Noncurrent liabilities			
Due within one year	-	2,000	2,000
Due in more than one year	<u>-</u>	<u>136,000</u>	<u>136,000</u>
Total liabilities	<u>4,389</u>	<u>138,000</u>	<u>142,389</u>
Net Assets			
Invested in capital assets, net of related debt	64,134	1,284,437	1,348,571
Restricted for:			
Debt	-	18,556	18,556
Unrestricted	<u>147,743</u>	<u>104,499</u>	<u>252,242</u>
Total net assets	<u>\$ 211,877</u>	<u>\$ 1,407,492</u>	<u>\$ 1,619,369</u>

See Accompanying Notes to Financial Statements

Village of Owendale
Statement of Activities
For the Year Ended February 28, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
	Expenses			Governmental Activities	Business-type Activities	
Functions/Programs						
Primary government						
Governmental activities						
General government	\$ 94,170	\$ 275	\$ -	\$ (93,895)	\$ -	\$ (93,895)
Public safety	21,226	611	-	(20,615)	-	(20,615)
Public works	59,155	36,019	2,818	(20,318)	-	(20,318)
Recreation and culture	2,635	-	-	(2,635)	-	(2,635)
Total governmental activities	177,186	36,905	2,818	(137,463)	-	(137,463)
Business-type activities						
Sewer	59,465	20,670	-	-	(38,795)	(38,795)
Water	41,833	27,642	-	-	(14,191)	(14,191)
Total business-type activities	101,298	48,312	-	-	(52,986)	(52,986)
Total primary government	\$ 278,484	\$ 85,217	\$ 2,818	(137,463)	(52,986)	(190,449)
General revenues						
Property taxes				49,965	-	49,965
State shared revenue				81,447	-	81,447
Unrestricted investment earnings				232	623	855
Miscellaneous				1,891	-	1,891
Transfers				7,000	(7,000)	-
Total general revenues and transfers				140,535	(6,377)	134,158
Change in net assets				3,072	(59,363)	(56,291)
Net assets - beginning of year				208,805	1,466,855	1,675,660
Net assets - end of year				\$ 211,877	\$ 1,407,492	\$ 1,619,369

See Accompanying Notes to Financial Statements

Village of Owendale
Governmental Funds
Balance Sheet
February 28, 2005

		Special Revenue Funds			Total Governmental Funds
	General	Major Street	Local Street	Municipal Street	
Assets					
Cash and cash equivalents	\$ 15,008	\$ 73,432	\$ 140	\$ 47,176	\$ 135,756
Receivables					
Customers	1,938	-	-	-	1,938
Due from other units of government	11,305	-	-	-	11,305
Due from other funds	1,139	-	-	-	1,139
Prepaid items	3,012	-	-	-	3,012
 Total assets	<u>\$ 32,402</u>	<u>\$ 73,432</u>	<u>\$ 140</u>	<u>\$ 47,176</u>	<u>\$ 153,150</u>
Liabilities					
Accounts payable	\$ 3,378	\$ -	\$ -	\$ -	\$ 3,378
Accrued and other liabilities	1,011	-	-	-	1,011
Due to other funds	-	1,018	-	-	1,018
 Total liabilities	<u>4,389</u>	<u>1,018</u>	<u>-</u>	<u>-</u>	<u>5,407</u>
Fund Balances					
Unreserved, reported in:					
General fund	28,013	-	-	-	28,013
Special revenue funds	-	72,414	140	47,176	119,730
 Total fund balances	<u>28,013</u>	<u>72,414</u>	<u>140</u>	<u>47,176</u>	<u>147,743</u>
 Total liabilities and fund balances	<u>\$ 32,402</u>	<u>\$ 73,432</u>	<u>\$ 140</u>	<u>\$ 47,176</u>	<u>\$ 153,150</u>

See Accompanying Notes to Financial Statements

Village of Owendale
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2005

Total fund balances for governmental funds	\$ 147,743
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>64,134</u>
Net assets of governmental activities	<u><u>\$ 211,877</u></u>

Village of Owendale
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2005

		Special Revenue Funds			Governmental Funds Total
	General	Major Street	Local Street	Municipal Street	
Revenues					
Taxes	\$ 36,169	\$ -	\$ -	\$ 13,796	\$ 49,965
Licenses and permits	500	-	-	-	500
State revenue sharing	39,532	31,501	12,305	-	83,338
Charges for services	12,082	-	-	-	12,082
Fines and forfeitures	111	-	-	-	111
Interest income	13	-	-	219	232
Rental income	24,212	-	-	-	24,212
Other revenue	-	-	-	2,818	2,818
Total revenues	<u>112,619</u>	<u>31,501</u>	<u>12,305</u>	<u>16,833</u>	<u>173,258</u>
Expenditures					
Current					
General government	58,841	656	655	-	60,152
Public safety	16,598	-	-	-	16,598
Public works	24,214	20,137	14,804	-	59,155
Recreation and culture	2,535	-	-	-	2,535
Other functions	23,980	-	-	-	23,980
Capital outlay	1,750	-	-	-	1,750
Total expenditures	<u>127,918</u>	<u>20,793</u>	<u>15,459</u>	<u>-</u>	<u>164,170</u>
Excess (deficiency) of revenues over expenditures	<u>(15,299)</u>	<u>10,708</u>	<u>(3,154)</u>	<u>16,833</u>	<u>9,088</u>
Other financing sources (uses)					
Transfers in	7,000	-	3,200	-	10,200
Transfers out	-	-	-	(3,200)	(3,200)
Total other financing sources and uses	<u>7,000</u>	<u>-</u>	<u>3,200</u>	<u>(3,200)</u>	<u>7,000</u>
Net change in fund balance	(8,299)	10,708	46	13,633	16,088
Fund balance - beginning of year	<u>36,312</u>	<u>61,706</u>	<u>94</u>	<u>33,543</u>	<u>131,655</u>
Fund balance - end of year	<u>\$ 28,013</u>	<u>\$ 72,414</u>	<u>\$ 140</u>	<u>\$ 47,176</u>	<u>\$ 147,743</u>

See Accompanying Notes to Financial Statements

Village of Owendale
Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2005

Net change in fund balances - Total governmental funds	\$ 16,088
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(14,666)
Capital outlay	<u>1,650</u>
Change in net assets of governmental activities	<u><u>\$ 3,072</u></u>

Village of Owendale
Proprietary Funds
Statement of Net Assets
February 28, 2005

	Enterprise Funds		
	Sewer	Water	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 81,428	\$ 13,821	\$ 95,249
Receivables			
Customers	4,575	4,796	9,371
Total current assets	86,003	18,617	104,620
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	-	18,556	18,556
Capital assets, net	998,571	423,866	1,422,437
Total noncurrent assets	998,571	442,422	1,440,993
Total assets	1,084,574	461,039	1,545,613
Liabilities			
Current liabilities			
Due to other funds	-	121	121
Current portion of noncurrent liabilities	-	2,000	2,000
Total current liabilities	-	2,121	2,121
Noncurrent liabilities			
Long-term debt net of current portion	-	136,000	136,000
Total liabilities	-	138,121	138,121
Net Assets			
Invested in capital assets, net of related debt	998,571	285,866	1,284,437
Restricted for:			
Debt	-	18,556	18,556
Unrestricted	86,003	18,496	104,499
Total net assets	\$ 1,084,574	\$ 322,918	\$ 1,407,492

See Accompanying Notes to Financial Statements

Village of Owendale
Proprietary Funds
Statement of Revenue, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2005

	Enterprise Funds		
	Sewer	Water	Total
Operating revenue			
Customer fees	\$ 20,670	\$ 27,643	\$ 48,313
Operating expenses			
Personal services	5,742	5,990	11,732
Supplies	6,638	3,511	10,149
Contractual services	-	1,008	1,008
Utilities	1,242	1,304	2,546
Repairs and maintenance	-	3,928	3,928
Other expenses	300	3,549	3,849
Depreciation	45,543	15,273	60,816
Total operating expenses	59,465	34,563	94,028
Operating loss	(38,795)	(6,920)	(45,715)
Nonoperating revenue (expenses)			
Interest income	412	211	623
Interest expense	-	(7,271)	(7,271)
Total nonoperating revenues (expenses)	412	(7,060)	(6,648)
Loss before contributions and transfers out	(38,383)	(13,980)	(52,363)
Transfers out	(7,000)	-	(7,000)
Change in net assets	(45,383)	(13,980)	(59,363)
Net assets - beginning of year	1,129,957	336,898	1,466,855
Net assets - end of year	\$ 1,084,574	\$ 322,918	\$ 1,407,492

See Accompanying Notes to Financial Statements

Village of Owendale
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2005

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 21,316	\$ 30,257	\$ 51,573
Receipts from other funds	(56)	-	(56)
Payments to other funds	-	121	121
Payments to suppliers	(8,180)	(14,300)	(22,480)
Payments to employees	(5,742)	(5,990)	(11,732)
Net cash provided by operating activities	<u>7,338</u>	<u>10,088</u>	<u>17,426</u>
Cash flows from noncapital financing activities			
Transfers to other funds	<u>(7,000)</u>	<u>-</u>	<u>(7,000)</u>
Cash flows from capital and related financing activities			
Principal and interest paid on long-term debt	<u>-</u>	<u>(7,271)</u>	<u>(7,271)</u>
Cash flows from investing activities			
Interest received	<u>412</u>	<u>211</u>	<u>623</u>
Net increase in cash and cash equivalents	750	3,028	3,778
Cash and cash equivalents - beginning of year	<u>80,678</u>	<u>29,349</u>	<u>110,027</u>
Cash and cash equivalents - end of year	<u>\$ 81,428</u>	<u>\$ 32,377</u>	<u>\$ 113,805</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating loss	\$ (38,795)	\$ (6,920)	\$ (45,715)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	45,543	15,273	60,816
Changes in assets and liabilities			
Receivables (net)	646	30	676
Due from other units of government	-	2,584	2,584
Due from other funds	(56)	-	(56)
Accounts payable	-	(1,000)	(1,000)
Due to other funds	-	121	121
Net cash provided by operating activities	<u>\$ 7,338</u>	<u>\$ 10,088</u>	<u>\$ 17,426</u>

See Accompanying Notes to Financial Statements

Village of Owendale
Notes to Financial Statements
February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Village of Owendale is governed by an elected seven-member Board. The Village was incorporated in 1905 as a general law village and is located in Huron County, Michigan. The Village provides the following services to its residents: public safety, highways and streets, sanitation, recreation, public improvements, planning and zoning and general administrative services. The accompanying financial statements present the government.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are

excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be

Village of Owendale
Notes to Financial Statements
February 28, 2005

susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the revenue and expenditures associated with the government's major streets.

The Local Street Fund accounts for the revenue and expenditures associated with the government's local streets.

The Municipal Street Fund accounts for the revenue and expenditures associated with the government's municipal streets.

The government reports the following major proprietary funds:

The Water Fund and the Sewer Fund account for the activities of the water distribution system and sewage collection system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government Enterprise Fund, of the Water and Sewer Funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Village of Owendale
Notes to Financial Statements
February 28, 2005

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the government totaled \$2,843,061, on which ad valorem taxes consisted of 16.3472 mills for operating purposes. This resulted in \$45,687 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years
Equipment	3 to 7 years

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Village of Owendale
Notes to Financial Statements
February 28, 2005

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the Village's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The Village is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

A budget for the 2004-2005 fiscal year was adopted by the Village Council for the Governmental and Special Revenue Funds on March 9, 2004. The budget includes proposed expenditures and a means of financing them.

The budgets for the Governmental and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

The general fund and major street fund expenditures exceeded appropriations by \$ 23,668 and \$ 9,693, respectively.

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated one bank for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

Village of Owendale
Notes to Financial Statements
February 28, 2005

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents
Governmental activities	\$ 135,756	\$ -
Business-type activities	95,249	18,556
Total	\$ 231,005	\$ 18,556

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits (checking and savings accounts, certificates of deposit)	<u>\$ 249,561</u>

Deposits

The bank balance was \$ 249,864 at year end. Of the bank balance, 173,572 was covered by federal depository insurance and \$ 76,292 was uninsured and uncollateralized.

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated				
Land improvements	\$ 3,362	\$ -	\$ -	\$ 3,362
Infrastructure	32,781	-	-	32,781
Machinery and equipment	160,855	1,650	-	162,505
Vehicles	22,281	-	-	22,281
Total capital assets being depreciated	219,279	1,650	-	220,929
Less accumulated depreciation for				
Land improvements	3,362	-	-	3,362
Infrastructure	31,076	1,093	-	32,169
Machinery and equipment	100,078	11,345	-	111,423
Vehicles	7,613	2,228	-	9,841
Total accumulated depreciation	142,129	14,666	-	156,795
Net capital assets being depreciated	77,150	(13,016)	-	64,134
Governmental activities capital assets, net	\$ 77,150	\$ (13,016)	\$ -	\$ 64,134
Business-type activities				
Capital assets not being depreciated				
Land	\$ 51,154	\$ -	\$ -	\$ 51,154
Capital assets being depreciated				
Buildings, additions and improvements	1,818,484	-	-	1,818,484
Machinery and equipment	20,320	-	-	20,320
Water system	569,123	-	-	569,123
Sewer system	3,220	-	-	3,220
Total capital assets being depreciated	2,411,147	-	-	2,411,147
Less accumulated depreciation for				
Buildings, additions and improvements	828,256	45,462	-	873,718
Machinery and equipment	20,320	-	-	20,320
Water system	129,984	15,273	-	145,257
Sewer system	488	81	-	569
Total accumulated depreciation	979,048	60,816	-	1,039,864
Net capital assets being depreciated	1,432,099	(60,816)	-	1,371,283
Business-type capital assets, net	\$ 1,483,253	\$ (60,816)	\$ -	\$ 1,422,437

Village of Owendale
Notes to Financial Statements
February 28, 2005

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 12,438
Public safety	<u>2,228</u>
Total governmental activities	<u>14,666</u>

Business-type activities

Sewer	45,543
Water	<u>15,273</u>
Total business-type activities	<u>60,816</u>

Total primary government	<u><u>\$ 75,482</u></u>
--------------------------	-------------------------

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Municipal Street Sewer	Local Street General	\$ 3,200 <u>7,000</u>
		<u>\$ 10,200</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 121
General	Major Street	<u>1,018</u>
		<u>\$ 1,139</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Village of Owendale
Notes to Financial Statements
February 28, 2005

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities									
Bonds payable									
General obligation bonds									
Water supply bonds	\$ 150,000	2014	5.25%	\$1,000- \$16,000	<u>\$ 139,000</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 138,000</u>	<u>\$ 2,000</u>

Village of Owendale
Notes to Financial Statements
February 28, 2005

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Business-type Activities	
	Principal	Interest
2006	\$ 2,000	\$ 7,913
2007	2,000	7,088
2008	2,000	7,002
2009	2,000	6,878
2010	2,000	6,773
2011-2015	13,000	32,019
2016-2020	17,000	28,148
2021-2025	22,000	22,959
2026-2030	30,000	16,237
2031-2035	<u>46,000</u>	<u>7,050</u>
	<u>\$ 138,000</u>	<u>\$ 142,067</u>

NOTE 7 - RESTRICTED ASSETS

The balances of the restricted assets accounts in the Enterprise Funds are as follows:

Cash is restricted for debt related purposes in the Water Fund.

NOTE 8 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 35,000	\$ 35,000	\$ 34,496	\$ (504)
Penalties and interest	-	-	1,190	1,190
Administration fee	600	600	483	(117)
Licenses and permits	-	-	500	500
State revenue sharing	40,000	40,000	39,532	(468)
Charges for services	15,000	15,000	12,082	(2,918)
Fines and forfeitures	1,000	1,000	111	(889)
Interest income	100	100	13	(87)
Rental income	20,000	20,000	24,212	4,212
Other revenue	40,000	40,000	-	(40,000)
Transfer in	-	7,000	7,000	-
	<u>151,700</u>	<u>158,700</u>	<u>119,619</u>	<u>(39,081)</u>
Total revenues				
Expenditures				
General government				
Salaries	29,000	29,000	39,895	10,895
Accounting	3,000	3,000	1,697	(1,303)
Elections	1,050	1,050	252	(798)
Buildings and grounds	17,800	17,800	16,997	(803)
	<u>50,850</u>	<u>50,850</u>	<u>58,841</u>	<u>7,991</u>
Total general government				
Public safety				
Police	14,800	14,800	16,598	1,798

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public works				
Drains	\$ 5,000	\$ 5,000	\$ 5,194	\$ 194
Street lighting	7,300	7,300	7,741	441
Sanitary land fill	10,000	10,000	11,279	1,279
Total public works	<u>22,300</u>	<u>22,300</u>	<u>24,214</u>	<u>1,914</u>
Recreation and culture				
Parks and recreation	<u>1,400</u>	<u>1,400</u>	<u>2,535</u>	<u>1,135</u>
Other functions				
Insurance and bonds	12,000	12,000	21,580	9,580
Unallocated employee fringe benefits	<u>2,400</u>	<u>2,400</u>	<u>2,400</u>	<u>-</u>
Total other functions	<u>14,400</u>	<u>14,400</u>	<u>23,980</u>	<u>9,580</u>
Capital outlay	<u>500</u>	<u>500</u>	<u>1,750</u>	<u>1,250</u>
Total expenditures	<u>104,250</u>	<u>104,250</u>	<u>127,918</u>	<u>23,668</u>
Excess (deficiency) of revenues over expenditures	47,450	54,450	(8,299)	(62,749)
Fund balance - beginning of year	<u>36,312</u>	<u>36,312</u>	<u>36,312</u>	<u>-</u>
Fund balance - end of year	<u>\$ 83,762</u>	<u>\$ 90,762</u>	<u>\$ 28,013</u>	<u>\$ (62,749)</u>

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue sharing	\$ 21,000	\$ 21,000	\$ 31,501	\$ 10,501
Expenditures				
Current				
General government	900	900	656	(244)
Public works	10,200	10,200	20,137	9,937
Total expenditures	11,100	11,100	20,793	9,693
Excess of revenues over expenditures	9,900	9,900	10,708	808
Fund balance - beginning of year	61,706	61,706	61,706	-
Fund balance - end of year	\$ 71,606	\$ 71,606	\$ 72,414	\$ 808

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue sharing	\$ 19,000	\$ 19,000	\$ 12,305	\$ (6,695)
Transfers in	-	-	3,200	3,200
	<u>19,000</u>	<u>19,000</u>	<u>15,505</u>	<u>(3,495)</u>
Expenditures				
Current				
General government	900	900	655	(245)
Public works	<u>18,100</u>	<u>18,100</u>	<u>14,804</u>	<u>(3,296)</u>
	<u>19,000</u>	<u>19,000</u>	<u>15,459</u>	<u>(3,541)</u>
Total expenditures				
	-	-	46	46
Excess of revenues over expenditures				
	<u>94</u>	<u>94</u>	<u>94</u>	<u>-</u>
Fund balance - beginning of year				
	<u>\$ 94</u>	<u>\$ 94</u>	<u>\$ 140</u>	<u>\$ 46</u>
Fund balance - end of year				

Village of Owendale
Required Supplemental Information
Budgetary Comparison Schedule
Municipal Street Fund
For the Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 13,000	\$ 13,000	\$ 13,796	\$ 796
Interest income	100	100	219	119
Other revenue	-	-	2,818	2,818
	<u>13,100</u>	<u>13,100</u>	<u>16,833</u>	<u>3,733</u>
Expenditures				
Transfers out	<u>8,000</u>	<u>8,000</u>	<u>3,200</u>	<u>(4,800)</u>
Excess of revenues over expenditures	5,100	5,100	13,633	8,533
Fund balance - beginning of year	<u>33,543</u>	<u>33,543</u>	<u>33,543</u>	<u>-</u>
Fund balance - end of year	<u>\$ 38,643</u>	<u>\$ 38,643</u>	<u>\$ 47,176</u>	<u>\$ 8,533</u>



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**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

Members of the Village Council
Village of Owendale
Owendale, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Owendale as of and for the year ended February 28, 2005, which collectively comprise Village of Owendale's basic financial statements and have issued our report thereon dated April 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Owendale's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether THE Village of Owendale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Village, management and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

April 26, 2005
Village of Owendale, Michigan

April 26, 2005

Village Council
Village of Owendale

We have audited the financial statements of the Village of Owendale for the year ended February 28, 2005, and have issued our report thereon dated April 26, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 18, 2005 our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Owendale. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Owendale are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the Village of Owendale during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Owendale's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Owendale either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Owendale's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the [Name of Governmental Unit]'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Village Council and management of the Village of Owendale and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Yeo & Yeo, P.C.

Saginaw, Michigan